

**Ishpeming Area Wastewater  
Treatment Facility  
Financial Statements  
For the Year Ended December 31, 2004**

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <u>Ishpeming Area Wastewater Treatment</u>		Facility	County <u>Marguette</u>
Audit Date <u>12/31/4</u>	Opinion Date <u>4/1/5</u>	Date Accountant Report Submitted to State: <u>4/30/5</u>			

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.

2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) <u>Anderson, Tackman &amp; Co, PLLC</u>			
Street Address <u>102 W. Washington St, Suite 107</u>	City <u>Marguette</u>	State <u>MI</u>	ZIP <u>49855</u>
Accountant Signature <u>Michael A. [Signature]</u>			

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# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

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## INDEPENDENT AUDITORS' REPORT

Authority Board  
Ishpeming Area Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

We have audited the statement of net assets of the Ishpeming Area Wastewater Treatment Facility, as of December 31, 2004, and the related statement of revenues, expenses, and changes in net assets and statement of cash flows for the year then ended. These financial statements are the responsibility of the Ishpeming Area Wastewater Treatment Facility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Ishpeming Area Wastewater Treatment Facility at December 31, 2004, and the changes in its financial position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 5 through 7 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated April 1, 2005 on our consideration of the Ishpeming Area Wastewater Treatment Facility's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Authority Board  
Ishpeming Area Wastewater Treatment Facility

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Ishpeming Area Wastewater Treatment Facility's basic financial statements.

The schedules listed as additional information in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements of the Ishpeming Area Wastewater Treatment Facility. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic statements taken as a whole.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

April 1, 2005

## Ishpeming Area Wastewater Treatment Facility

### MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the Ishpeming Area Wastewater Treatment Facility's financial performance provides an overview of the Facility's financial activities for the year ended December 31, 2004. Please read it in conjunction with the financial statements, which begin on page 8.

#### FINANCIAL HIGHLIGHTS

- Net assets for the Facility as a whole were reported at \$6,888,693. Net assets are comprised of 100% business-type activities.
- During the year, the Facility's total expenses were \$853,578, while revenues from all sources totaled \$652,776 resulting in a decrease in net assets of \$200,802.

#### USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets (on pages 8 and 9) provide information about the activities of the Facility as a whole and present a longer-term view of the Facility finances.

#### **Reporting the Facility as a Whole**

One of the most important questions asked about the Facility's finances is "Is the Facility as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets report information about the Facility as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the Facility's *net assets* and changes in them. You can think of the Facility's net assets - the difference between assets and liabilities - as one way to measure the Facility's financial health, or *financial position*. Over time, *increases or decreases* in the Facility's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the Facility's operating base and the condition of the Facility's capital assets, to assess the *overall financial health* of the Facility.

In the Statement of Net Assets and the Statement of Revenues, Expenses and Changes in Net Assets, we report all of the Facility's activities as business-type activities because the Facility charges a fee to residents to help it cover the cost of services it provides.

# MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)

Table I provides a summary of the Facility's net assets as of December 31, 2004 and 2003.

Table 1 Net Assets		
	2004	2003
Current and other assets	\$2,085,451	\$1,962,347
Capital assets, net	<u>4,982,870</u>	<u>5,218,256</u>
Total Assets	<u>7,068,321</u>	<u>7,180,603</u>
Current liabilities	119,517	37,987
Noncurrent liabilities	<u>60,111</u>	<u>53,122</u>
Total Liabilities	<u>179,628</u>	<u>91,109</u>
Net Assets:		
Invested in capital assets	4,982,870	5,218,256
Restricted	1,843,705	1,743,080
Unrestricted	<u>62,118</u>	<u>128,158</u>
Total Net Assets	<u>\$6,888,693</u>	<u>\$7,089,494</u>

Net assets of the Facility's business-type activities stood at \$6,888,693. Unrestricted net assets—the part of net assets that could be used to finance day-to-day activities stood at \$1,905,823.

The \$1,905,823 in unrestricted net assets represents the accumulated results of all past years' operations. The results of this year's operations for the Facility as a whole are reported in the Statement of Revenues, Expenses and Changes in Net Assets (see Table 2), which shows the changes in net assets for fiscal year 2004 and 2003.

Table 2 Changes in Net Assets		
	2004	2003
Operating revenues:		
City and Township service revenues	\$ 508,029	\$ 591,876
Other operating revenues	<u>91,727</u>	<u>83,958</u>
Total Operating Revenues	<u>599,756</u>	<u>675,834</u>
Operating expenses:		
Interlocal Board	3,582	3,225
Operations	538,151	506,103
Depreciation	<u>311,845</u>	<u>301,892</u>
Total Operating Expenses	<u>853,578</u>	<u>811,220</u>
Income (loss) from operations	<u>(253,822)</u>	<u>(135,386)</u>
Nonoperating Revenues (Expenses):		
Interest income	62,118	61,244
Gain (loss) on disposal of assets	<u>(9,098)</u>	<u>(33,373)</u>
Total Nonoperating Revenues (Expenses)	<u>53,020</u>	<u>27,871</u>
Increase (decrease) in net assets	<u>(200,802)</u>	<u>(107,515)</u>
Net assets, beginning	<u>7,089,495</u>	<u>7,197,010</u>
Net Assets, Ending	<u>\$6,888,693</u>	<u>\$7,089,495</u>

## **MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED) (Continued)**

The Facility's total revenues were \$652,776. The total cost of all programs and services was \$853,578, leaving a decrease in net assets of \$200,802 as a result of fiscal year 2004 operations.

The Net Loss for the current year of \$200,802 is due from \$198,386 in building depreciation that is not charged to the units (due to being paid by grants when the facility was built) and \$2,416 is O & M expenses that were paid from Restricted Capital Improvement Monies.

### **CAPITAL ASSET AND DEBT ADMINISTRATION**

#### **Capital Assets**

At the end of fiscal 2004, the Facility had \$4,982,870 invested in a variety of capital assets including land, buildings, and other equipment. (See table 3 below)

**Table 3**  
**Capital Assets**

	2004	2003
Buildings	\$7,905,932	\$7,905,932
Equipment and furnishings	1,678,276	1,690,469
Vehicles	<u>208,912</u>	<u>208,912</u>
	9,793,120	9,805,313
Accumulated depreciation	<u>(4,810,250)</u>	<u>(4,587,057)</u>
Totals	<u>\$4,982,870</u>	<u>\$5,218,256</u>

The Facility purchase \$85,558 in computers, pumps and facility upgrades during the fiscal year. The Facility recorded \$311,845 in depreciation expense for the year, and disposed of equipment with a net book value of \$9,098.

#### **Debt**

The Facility has no outstanding debt at year-end.

### **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS**

In preparing the budget for the year ending December 31, 2005 there appears to be no anticipated changes in operations of funding concerns.

### **CONTACTING THE FACILITY FINANCIAL MANAGEMENT**

This financial report is designated to provide our taxpayers, investors and creditors with a general overview of the Facility's finances and to show the Facility's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Facility Director at Ishpeming Area Wastewater Treatment Facility, 700 Sunset Drive, Ishpeming, Michigan 49849.



**Ishpeming Area Wastewater Treatment Facility**  
**Statement of Net Assets**  
**December 31, 2004**

**ASSETS**

Current assets:

Cash and equivalents	\$ 62,738
Investments	88,612
Accounts receivable	2,666
Inventory	7,781
Prepaid expense	<u>19,839</u>
Total current assets	<u>181,636</u>

Noncurrent assets

Investments	1,903,815
Capital assets - net	<u>4,982,870</u>
Total noncurrent assets	<u>6,886,685</u>

**TOTAL ASSETS**

7,068,321

**LIABILITIES**

Current liabilities:

Accounts payable	9,624
Accrued payroll	13,866
Deferred revenue - City of Ishpeming	71,052
Deferred revenue - Township of Ishpeming	<u>24,975</u>
Total current liabilities	<u>119,517</u>

Noncurrent liabilities:

Compensated absences	<u>60,111</u>
Total noncurrent liabilities	<u>60,111</u>

**TOTAL LIABILITIES**

179,628

**NET ASSETS**

Invested in capital assets--net of related debt	4,982,870
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Retained earnings:

Restricted for sick leave liability

City of Ishpeming	2,205
Township of Ishpeming	1,086

Restricted for capital improvement:

City of Ishpeming	46,353
Township of Ishpeming	22,831

Restricted for equipment replacement:

City of Ishpeming	1,186,724
Township of Ishpeming	584,506

Unrestricted

City of Ishpeming	41,618
Township of Ishpeming	<u>20,500</u>

**TOTAL NET ASSETS**

\$ 6,888,693

*The Notes to the Financial Statements are an integral part of this statement.*

**Ishpeming Area Wastewater Treatment Facility**  
**Statement of Revenues, Expenses and Changes in Net Assets**  
**For the year ended December 31, 2004**

**OPERATING REVENUE:**

Charges for services - City of Ishpeming	\$ 375,948
Charges for services - Township of Ishpeming	132,081
Leachate charges	48,350
Other charges	40,649
Reimbursements	<u>2,728</u>
Total operating revenues	<u>599,756</u>

**OPERATING EXPENSES:**

Interlocal board	3,582
Salaries	194,644
Fringe benefits	119,795
Process chemicals	23,769
Maintenance supplies	16,214
Laboratory	10,625
Professional fees	18,245
Copper testing	86
Vehicles	5,644
Utilities	106,986
Equipment rentals	648
Professional development	1,035
Other general expenses	36,610
Safety and health	3,850
Depreciation expense	<u>311,845</u>
Total operating expenses	<u>853,578</u>
OPERATING INCOME (LOSS)	(253,822)

**NON-OPERATING REVENUES (EXPENSES)**

Interest income	62,118
Gain (Loss) on disposal of assets	<u>(9,098)</u>
TOTAL NON-OPERATING REVENUES (EXPENSES)	53,020

CHANGE IN NET ASSETS (200,802)

TOTAL NET ASSETS - BEGINNING OF YEAR 7,089,495

TOTAL NET ASSETS - END OF YEAR \$ 6,888,693

*The Notes to the Financial Statements are an integral part of this statement.*

**Ishpeming Area Wastewater Treatment Facility**  
**Statement of Cash Flows**  
For the year ended December 31, 2004

Cash flows from operating activities:

Collections from customers	\$ 684,291
Payments to employees and related items	(305,515)
Payments to vendors	<u>(228,823)</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES** 149,953

Cash flows from capital & related financing activities:

Purchase of equipment	<u>(85,556)</u>
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**NET CASH PROVIDED BY CAPITAL & RELATED FINANCING ACTIVITIES** (85,556)

Cash flows from investing activities:

(Increase) in unrestricted investments	5,612
(Increase) in restricted investments	(109,524)
Interest income	<u>62,118</u>

**NET CASH (USED) BY INVESTING ACTIVITIES** (41,794)

**NET INCREASE (DECREASE) IN CASH** 22,603

Cash, beginning of year 40,135

**CASH, END OF YEAR \$** 62,738

**RECONCILIATION OF OPERATING GAIN TO NET CASH PROVIDED  
BY OPERATING ACTIVITIES:**

Net operating loss	\$ (253,822)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	311,845
(Increase) decrease in accounts receivable	6,206
(Increase) decrease in inventory	(1,877)
(Increase) decrease in prepaid expense	(918)
Increase (decrease) in accounts payable	(2,316)
Increase (decrease) in accrued payroll	5,517
Increase (decrease) in deferred revenue	78,329
Increase (decrease) in accrued sick leave	<u>6,989</u>

**NET CASH PROVIDED BY OPERATING ACTIVITIES \$** 149,953

*The Notes to the Financial Statements are an integral part of this statement.*

ISHPEMING AREA WASTEWATER TREATMENT FACILITY  
NOTES TO FINANCIAL STATEMENTS  
December 31, 2004

NOTE A – DESCRIPTION OF THE REPORTING ENTITY:

Organization

The Ishpeming Area Wastewater Treatment System's 1984 contract was entered into during 1984, between the City of Ishpeming (City), the Township of Ishpeming (Township), the County of Marquette, and the Ishpeming Area Joint Wastewater Treatment Board. The contract called for the construction of a wastewater treatment facility. The facility was completed and became operational in 1986. The facility is managed by the Board on a long-term lease agreement. The Board consists of five members. One member is appointed by the Marquette County Health Department. Each member serves a three year term. The Director is hired by the Board. The Board provides wastewater treatment services to the City of Ishpeming and the Township of Ishpeming. The accompanying financial statements include only the Ishpeming Area Joint Wastewater Treatment Facility and do not include any other governmental agencies or departments.

Interlocal Agreement

The City of Ishpeming and the Township of Ishpeming entered into an agreement during 1981, for the purpose of creating the Ishpeming Area Joint Wastewater Treatment Board. The Board is to design, construct, operate and maintain a joint wastewater treatment plant and related facilities. Unless otherwise agreed to by the City and Township, the Board shall not levy or assess user charges, sewer rates, or fees directly against individual users of the Wastewater Treatment Facility, but shall instead be reimbursed by contract payments from the City and Township. The City and Township shall be responsible for collecting user charges, sewer rates, fees, penalties, and the like from their respective residents and users of the system.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The financial statements of the Ishpeming Area Wastewater Treatment Facility have been prepared in accordance with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for State and Local governments through its pronouncements (statements and interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. The more significant of these accounting policies established in GAAP and used by the Ishpeming Area Wastewater Treatment Facility are described below.

**(1) Fund Accounting** - Ishpeming Area Wastewater Treatment Facility is a distinct entity and, accordingly, consists of a separate set of self-balancing accounts comprised of the Facility's assets, liabilities, net assets, revenues and expense accounts. The Ishpeming Area Wastewater Treatment Facility is defined under generally accepted terminology as a proprietary enterprise fund. Enterprise funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises with the intent of the governing body being that costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTE B – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

**(2) Basis of Accounting** - Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. All proprietary funds are accounted for using the accrual basis of accounting. Under the accrual basis, revenues are recognized when they are earned and expenses are recognized when incurred.

**(3) Mission Statement and Nonoperating Revenues and Expenses** - The Facility's primary mission is to provide wastewater treatment services through its facility. Only those activities directly associated with the furtherance of this purpose are considered to be operating activities.

Other activities that result in revenues or expenses unrelated to the Facility's primary mission are considered to be nonoperating. Nonoperating revenues and expenses include property taxes, county appropriations, maintenance of effort, private contributions, rent, proportionate share reimbursement, and other revenue.

Cash and Equivalents

For the purposes of the statement of cash flows, the Facility considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Investments

Investments are stated at fair market value.

Accounts Receivable

Accounts receivable consists primarily of amounts due from other governmental units that pay their respective bills on a monthly basis. Therefore, no allowance for doubtful accounts has been established.

Inventory

Inventories of operating supplies are stated at the lower of cost or market, determined by the first-in, first-out method of valuation.

**(1) Land, Buildings, and Equipment** - Land, buildings, and equipment (capital assets) relating to the operations of the Facility are recorded at cost and accounted for in the Ishpeming Area Wastewater Treatment Facility Fund. Depreciation on such capital assets is charged as an expense against the operations of the Facility using straight-line depreciation. Depreciation rates are designed to amortize the cost of the assets over their estimated useful lives ranging from 3 to 40 years.

**(2) Board-Designated Assets** - Certain investments of the Unrestricted Fund have been internally designated by the Board for the funding of plant replacement, expansion and other specified projects.

**(3) Use of Estimates** - The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

## NOTE C – DEPOSITS AND INVESTMENTS:

The composition of cash and equivalents restricted and unrestricted, reported on the balance sheet are as follows:

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Cash and equivalents	<u>\$62,738</u>	<u>\$ -</u>	<u>\$62,738</u>

At year end, the Facility's cash and equivalents bank balance was \$67,467, 100 percent of which was insured by the Federal Deposit Insurance Corporation (FDIC). Regulation number 330.8 in summary provides that deposits of a governmental unit are insured for the lesser of the amount of the combined deposit or \$100,000 in every financial institution that is not a branch location that is a member of the FDIC in the following deposit accounts.

1. All demand non-interest bearing accounts in the name of the authorized or statutory custodian of public funds.
2. All savings deposits which include regular passbook, daily interest savings and time certificates of deposit in the name of the governmental unit's custodian.
3. Each bookholder is insured pro-rata for the lesser of the amount on deposit in the debt retirement account for \$100,000. Each separate debt issue or debt series is similarly insured.
4. The demand accounts and savings accounts as defined in items 1 and 2 above for those bank accounts in the name of the specific fund when all of the following criteria are applicable.
  - a. The fund is created by a specific State statute.
  - b. The functions of the fund are specified by State statute.
  - c. Money is allocated by State statute for the exclusive use of that fund and statutory function.

### Investments

The Facility's investments are categorized below to give an indication of the level of risk assumed at year end. Category 1 includes investments that are insured or registered or for which the securities are held by the Facility or its agent in the Facility's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the broker's or dealer's safekeeping department or agent in the Facility's name.

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
Investments	<u>\$88,612</u>	<u>\$1,903,815</u>	<u>\$1,992,427</u>
<hr/>			
Carrying Amount			
Held by Agent in Facility's name – Category 1:			
Certificates of Deposit/Money Markets	\$88,612	\$ 486,088	\$ 574,700
U.S. Government Obligations	-	1,417,727	1,417,727
TOTAL	<u>\$88,612</u>	<u>\$1,903,815</u>	<u>\$1,992,427</u>

NOTE C – DEPOSITS AND INVESTMENTS (Continued):

Act 196, PA 1997, authorized the Facility to deposit and invest in:

1. Bonds and other direct obligations of the United States or its agencies.
2. Certificates of deposit, savings accounts, deposit accounts or depository receipts of federally insured banks, insured savings and loan associations or credit unions insured by the National credit Union Administration that are eligible to be depository of surplus money belonging to the State under Section 5 or 6 of Act 105, PA 1855 as amended.
3. Commercial paper rated at time of purchase within the three highest classifications established by not less than two standard rating services.
4. United States government or Federal agency obligation repurchase agreements.
5. Banker's acceptance of United States banks.
6. Mutual funds composed of investments which are legal for direct investments by local units of government in Michigan.
7. Obligations of the State of Michigan or its political subdivisions which are rated investment grade.
8. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Board's investments are in accordance with statutory authority.

Michigan law prohibits security in the form of collateral, surety bond, or another form for the deposit of public money.

NOTE D – FIXED ASSETS:

A summary of the fixed assets for the Facility is as follows:

	Balance January 1, 2004	Additions	Disposals	Balance December 31, 2004
Wastewater Plant	\$7,905,932	\$ -	\$ -	\$ 7,905,932
Machinery and Equipment	1,690,469	85,558	(97,751)	1,678,276
Vehicles	208,912	-	-	208,912
Total	<u>9,805,313</u>	<u>85,558</u>	<u>(97,751)</u>	<u>9,793,120</u>
Less accumulated depreciation	<u>(4,587,057)</u>	<u>(311,845)</u>	<u>88,652</u>	<u>(4,810,250)</u>
NET FIXED ASSETS	<u>\$5,218,256</u>	<u>(\$ 226,287)</u>	<u>(\$ 9,099)</u>	<u>\$ 4,982,870</u>

NOTE E – RESTRICTED ASSETS AND NET ASSETS:

Certain cash and equivalents and investments have been restricted for future equipment replacements, capital improvements and sick leave liability. Similarly, a portion of net assets has been restricted for these items. This indicates that a portion of net assets has been legally segregated for that specific purpose.

#### NOTE F – DEFERRED REVENUES:

Deferred revenues are those where asset recognition criteria have been met, but for which revenue recognition criteria have not been met.

During the year, the Facility bills the City and Township a monthly amount based on budgeted charges for services. At year end, actual charges for services are calculated for each municipality and an adjustment is made to revenue. The difference between calculated revenues and the amounts billed to the municipalities are recorded as deferred revenue. At December 31, 2004, the Board has recorded deferred revenue of \$71,052 and \$24,975 for the City and Township, respectively.

#### NOTE G – ACCRUED SICK LEAVE:

The Facility has a policy of allowing full-time employees to accumulate sick leave benefits. Employees may accumulate a maximum of one hundred days. One sick leave day is allowed for each accumulated month of service. Accrued sick leave payable as of December 31, 2004 was \$60,111 and was funded with \$63,402 of investments that are segregated for the payment of sick leave benefits.

Balance		Balance
<u>12/31/03</u>	<u>Change</u>	<u>12/31/04</u>
<u>\$53,122</u>	<u>\$6,989</u>	<u>\$60,111</u>

#### NOTE H – DEFINED BENEFIT PENSION PLAN:

The following information is based upon the latest available actuarial valuation (as of December 31, 2003).

##### Plan Description

The Facility contributes to the Michigan Municipal Employees Retirement System ("System"), an agent multiple-employer public employee retirement system that acts as a common investment and administrative Agent for all Michigan municipal employees. The System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to Gabriel, Roeder, Smith & Company, One Towne Square, Southfield, MI 48076.

The qualified employees of the Facility are eligible to participate in the System. Benefits vest after ten years of service. Facility employees who retire at or after the age of 55 with 25 years of credited service are entitled to an annual retirement benefit, payable monthly for life. Qualified employees receive a monthly payment equal to 2.50 percent of final average compensation, with a maximum benefit of 80% of final average compensation. The System also provides death and disability benefits. These benefit provisions and all other requirements are established by State statute and Facility contracts.

##### Funding Policy

The Facility is required to contribute the amounts necessary to fund the System, using the actuarial basis specified by statute.



NOTE H – DEFINED BENEFIT PENSION PLAN (Continued):

Annual Pension Cost

For the year ended December 31, 2004, the Facility's required annual pension cost of \$18,985. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age normal cost method. Significant actuarial assumptions used include an 8.0% investment rate of return and projected salary increases of 4.5% per year. The actuarial value of assets is determined on the basis of a valuation method that assumes the fund earns the expected rate of return (8%), and includes an adjustment to reflect market value. Unfunded actuarial accrued liabilities are amortized by level percent of payroll contributions over a period of 30 years.

Three-Year Trend Information

Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Accrued Liability (AAL) – Entry Age (a)	Actuarial Value Of Assets (b)	Unfunded AAL (UAAL) (a) – (b)	Funded Ratio (b/a)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
2001	\$363,130	\$300,102	\$63,028	83%	\$180,737	35%
2002	403,196	319,744	83,452	79	184,095	45
2003	459,702	363,412	96,290	79	188,701	51

Schedule of Employer Contributions

Fiscal Year Ending December 31	Valuation Date December 31	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2002	2000	\$4,348	100%	-
2003	2001	16,606	100	-
2004	2002	18,985	100	-

NOTE I – RISK MANAGEMENT:

The Facility is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Facility maintains insurance coverage through the Hannula Insurance Agency which covers each of those risks of loss. Management believes such Coverage is sufficient to preclude any significant uninsured losses to the Facility. Settled claims have not exceeded this coverage in any of the past three years.

NOTE J – DEFERRED COMPENSATION PLAN:

The Facility offers its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The plans are available to all Facility employees and permit them to defer a portion of their current earnings until the employee's termination, retirement, death or unforeseeable emergency.

Due to changes in the Internal Revenue Code, the Plan's assets are considered to be property of the Plan's participants and are no longer subject to the Facility's general creditors. Therefore, the Plan is not presented in these financial statements.

OTHER FINANCIAL INFORMATION

Ishpeming Area Wastewater Treatment Facility  
Schedule of Changes in Retained Earnings and Contributed Capital  
For the year ended December 31, 2004

	Investment In Capital Assets Federal	Investment In Capital Assets State	Investment In Capital Assets City	Investment In Capital Assets Township	Restricted Sick Leave Reserve City	Restricted Sick Leave Reserve Township	Restricted Capital Improvement City	Restricted Capital Improvement Township	Restricted Equipment Replacement City	Restricted Equipment Replacement Township	Unrestricted City	Unrestricted Township	Totals
Balance - Beginning of Year	\$3,319,132	\$ 219,165	\$1,125,572	\$ 554,387	\$ -	\$ -	\$ 51,784	\$ 25,506	\$ 1,116,079	\$ 549,711	\$ 94,838	\$ 33,321	\$7,089,495
Net Income (Loss)	-	-	-	-	-	-	-	-	-	-	(134,537)	(66,265)	(200,802)
Depreciation	(171,608)	(11,332)	(86,367)	(42,538)	-	-	-	-	-	-	208,936	102,909	-
Equipment Purchases	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement	-	-	17,983	8,857	-	-	(17,983)	(8,857)	(39,341)	(19,377)	-	-	-
Equipment Replacement	-	-	39,341	19,377	-	-	-	-	-	-	-	-	-
Unrestricted	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain (Loss) on Asset Disposal	-	-	(6,096)	(3,002)	-	-	-	-	-	-	6,096	3,002	-
Interest on Restricted Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Sick Leave Reserve	-	-	-	-	1,062	523	-	-	-	-	(1,062)	(523)	-
Capital Improvement	-	-	-	-	-	-	584	288	-	-	(584)	(288)	-
Equipment Replacement	-	-	-	-	-	-	-	-	37,797	18,616	(37,797)	(18,616)	-
Investment Fees	-	-	-	-	-	-	-	-	27	13	(27)	(13)	-
Restricted Leachate Revenue	-	-	-	-	-	-	-	-	-	-	-	-	-
Capital Improvement	-	-	-	-	-	-	13,587	6,692	-	-	(13,587)	(6,692)	-
Equipment Replacement	-	-	-	-	-	-	(1,619)	(797)	-	-	(5,216)	(2,569)	-
O & M Expense Paid From Capital	-	-	-	-	-	-	-	-	-	-	1,619	797	-
Depreciation on Equipment and Vehicles	-	-	-	-	-	-	-	-	76,017	37,442	(76,017)	(37,442)	-
Adjustments Relating to Investments	(47,254)	(3,119)	33,751	16,621	1,143	563	-	(1)	(9,071)	(4,468)	(1,044)	12,879	-
Net Change	(218,862)	(14,451)	(1,386)	(685)	2,205	1,086	(5,431)	(2,675)	70,645	34,795	(53,220)	(12,821)	(200,802)
Balance - End of Year	\$3,100,270	\$ 204,714	\$1,124,184	\$ 553,702	\$ 2,205	\$ 1,086	\$ 46,353	\$ 22,831	\$ 1,186,724	\$ 584,506	\$ 41,618	\$ 20,500	\$6,888,693

**Ishpeming Area Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
INTERLOCAL BOARD:			
Board compensation	\$ 2,960	\$ 2,880	\$ 80
FICA	220	220	-
Mileage and expense	600	482	118
Total interlocal board	<u>3,780</u>	<u>3,582</u>	<u>198</u>
SALARIES:			
Preliminary treatment	6,602	6,602	-
Grit removal	2,650	2,451	199
Secondary treatment	500	280	220
Chlorination/dechlorination	3,100	2,968	132
Sludge handling	900	591	309
Belt press	13,000	12,578	422
Sludge hauling	4,516	4,516	-
Laboratory ww	34,315	33,972	343
Laboratory water	1,000	194	806
Grounds maintenance	8,000	7,399	601
Buildings maintenance	17,500	17,074	426
Equipment maintenance	8,368	8,368	-
Vehicle maintenance	2,000	1,946	54
Plant operations	53,000	52,137	863
Administration	40,000	40,689	(689)
Training	3,000	2,697	303
Safety training	1,000	182	818
Total salaries	<u>199,451</u>	<u>194,644</u>	<u>4,807</u>
FRINGE BENEFITS:			
Retirement	19,500	18,985	515
Health insurance	46,000	45,266	734
FICA	16,450	16,351	99
Vacation	16,350	15,952	398
Sick leave	13,288	13,288	-
Holidays	8,610	7,642	968
Personal leave days	2,620	2,311	309
Total fringe benefits	<u>122,818</u>	<u>119,795</u>	<u>3,023</u>
PROCESS CHEMICALS:			
Ferrous chloride	5,893	5,893	-
Polymer - press	9,570	9,570	-
Chlorine	6,600	5,948	652
Sulfur dioxide	<u>2,358</u>	<u>2,358</u>	<u>-</u>

**Ishpeming Area Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
PROCESS CHEMICALS, continued			
Total process chemicals	\$ 24,421	\$ 23,769	\$ 652
MAINTENANCE SUPPLIES:			
Influent pumps raw	25	25	-
Comminuter	500	353	147
Grit equipment (removal)	500	358	142
DAF thickeners	210	205	5
Chemical feed equipment (CL2)	2,500	2,474	26
Chemical feed equipment (dechlor)	100	32	68
Chemical feed equipment (p removal)	1,320	1,315	5
Belt presses	355	354	1
Buildings	6,485	6,459	26
Grounds	1,000	713	287
General workshop and tools	2,000	1,590	410
Metering stations	500	8	492
Miscellaneous	100	-	100
Generator	520	347	173
General maintenance	2,000	1,509	491
Boilers	500	169	331
Mixers/aerators	350	303	47
Total maintenance supplies	<u>18,965</u>	<u>16,214</u>	<u>2,751</u>
LABORATORY:			
WW reagents	2,000	1,622	378
WW glassware	500	78	422
WW equipment	2,600	2,545	55
WW disposable equipment	1,400	1,119	281
Water certification/analysis	2,140	2,133	7
Water reagents	2,500	2,476	24
WW outside testing soil/sludge	660	652	8
Total laboratory	<u>11,800</u>	<u>10,625</u>	<u>1,175</u>
PROFESSIONAL FEES:			
Certified public accountant	520	520	-
Grit disposal fees	5,500	5,500	-
Certified accountant	2,800	2,800	-

**Ishpeming Area Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
PROFESSIONAL FEES, continued			
Attorney fees	\$ 4,383	\$ 4,383	\$ -
Electrical	750	750	-
Lead	950	851	99
Mercury	1,700	1,646	54
Other metals	2,200	1,795	405
Total professional fees	18,803	18,245	558
COPPER TESTING	300	86	214
VEHICLES:			
GMC fuel	450	394	56
GMC maintenance	200	54	146
Tanker fuel	2,050	1,956	94
Tanker maintenance	1,849	1,848	1
Front end loader fuel	200	159	41
Front end loader maintenance	200	113	87
Vehicles misc	400	329	71
4x4 fuel	700	573	127
4x4 maintenance	250	218	32
Total vehicles	6,299	5,644	655
UTILITIES:			
Telephone	1,400	1,156	244
Electricity (plant)	90,213	90,212	1
Electricity (metering station)	700	500	200
Natural gas	13,500	14,065	(565)
Water/landfill/sewer	1,200	1,053	147
Total utilities	107,013	106,986	27
EQUIPMENT RENTAL:			
Other (pager)	1,100	648	452
Total equipment rental	1,100	648	452
PROFESSIONAL DEVELOPMENT:			
Memberships	450	450	-
Conferences	585	585	-
Total professional development	1,035	1,035	-
OTHER GENERAL EXPENSES:			
Office supplies	2,184	2,095	89
Computer/software	2,250	2,244	6
Operating supplies	185	-	185
Insurance	29,000	28,841	159
Worker's compensation	3,265	3,265	-

**Ishpeming Area Wastewater Treatment Facility**  
**Schedule of Expenses - Budget and Actual**  
**For the year ended December 31, 2004**

	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
OTHER GENERAL EXPENSES, continued			
Advertising	\$ 200	\$ 165	\$ 35
Total other general expenses	<u>37,084</u>	<u>36,610</u>	<u>474</u>
SAFETY AND HEALTH:			
Safety equipment	2,940	2,954	(14)
Employees physicals	336	308	28
Apparel	<u>900</u>	<u>588</u>	<u>312</u>
Total safety and health	<u>4,176</u>	<u>3,850</u>	<u>326</u>
TOTAL OPERATING EXPENSES, net of depreciation	<u>\$ 557,045</u>	<u>\$ 541,733</u>	<u>15,312</u>

## Compliance Supplements





# ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

## PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN  
ESCANABA  
IRON MOUNTAIN  
KINROSS  
MARQUETTE

WISCONSIN  
GREEN BAY  
MILWAUKEE

### REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Authority Board  
Ishpeming Area Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

We have audited the financial statements of the Ishpeming Area Wastewater Treatment Facility, as of and for the year ended December 31, 2004, and have issued our report thereon dated April 1, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance and other matters

As part of obtaining reasonable assurance about whether the Ishpeming Area Wastewater Treatment Facility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control over Financial Reporting

In planning and performing our audit, we considered the Ishpeming Area Wastewater Treatment Facility's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Authority Board  
Ishpeming Area Wastewater Treatment Facility

This report is intended solely for the information and use of the Board and management of the Ishpeming Area Wastewater Treatment Facility, and other federal and state audit agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

April 1, 2005



# ANDERSON, TACKMAN & COMPANY, P.L.C.

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### ***Ishpeming Area Wastewater Treatment Facility Report to Management Letter For the Year Ended December 31, 2004***

Authority Board  
Ishpeming Area Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, Michigan 49849

In planning and performing our audit of the financial statements of the Ishpeming Area Wastewater Treatment Facility for the year ended December 31, 2004, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the Facility's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might result in reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above.

#### OTHER COMMENTS

##### *Segregation of Duties:*

- Due to the small size of the Facility, the proper segregation of duties in the accounting applications is not always practical. The most crucial areas are cash and cash management, where there is a possibility that those intentional or unintentional errors could be made and go undetected for a period of time exists. We recommend the Board continue to review the financial reports and cash transactions at regular intervals.

#### Conclusion

We have discussed these items with management and will be pleased to discuss them in further detail at your convenience.

Authority Board  
Ishpeming Area Wastewater Treatment Facility

This report is intended solely for the use of the Facility, management, and federal and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants

April 1, 2005



# ANDERSON, TACKMAN & COMPANY, P.L.C.

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MILWAUKEE

April 1, 2005

Board Members of the  
Ishpeming Area Wastewater Treatment Facility  
700 Sunset Drive  
Ishpeming, MI 49849

We have audited the financial statements of the Ishpeming Area Wastewater Treatment Facility for the year ended December 31, 2004, and have issued our report thereon dated April 1, 2005. Professional standards require that we provide you with the following information related to our audit.

### **Our Responsibility under U.S. Generally Accepted Auditing Standards and Government Auditing Standards**

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the organization. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed test of the organizations compliance with certain provisions of laws, regulations, contracts and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

### **Significant Accounting Policies**

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management of the appropriateness of accounting policies and their application. The significant accounting policies used are described in the Footnotes of the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

### **Accounting Estimates**

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Board Members of the  
Ishpeming Area Wastewater Treatment Facility

**Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded, either individually or in the aggregate, indicate matters that could have a significant effect on the financial reporting process.

**Disagreements with Management**

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

**Consultation with Other Independent Accountants**

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

**Issues Discussed Prior to Retention of Independent Auditors**

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

**Difficulties Encountered in Performing the Audit**

We encountered no significant difficulties in dealing with management in the performance of our audit.

**Conclusion**

This information is intended solely for the use of the Board and management and is not intended to be and should not be used by anyone other than these specified parties.

*Anderson, Tackman & Company, PLLC*  
Certified Public Accountants